STOCKS DOWN UNDER

10 OCT 2022

ASX Top 200 Stocks Down Under

Put not your trust in money, but put your money in trust.

- Oliver Wendell Holmes (1841-1935), Former US Supreme Court Justice

ASX

EXCHANGE CENTRE

WISETECH

Expensive for a reason

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Expensive for a reason

Stocks Down Under rating: ★★★★

ASX: WTC
Market cap: A$18.4BN

52-week range: A$34.11 / A$63.37
Share price: A$55.90

If you'd bought WiseTech at its 2016 IPO, you'd have a hefty return with a share price surge from $3.35 to $55.90 now. It has even been able to defy the Tech Wreck of 2022, sitting in slightly positive territory in the last 12 months while the ASX All Technology Index has lost over 30%. We think it is because it has been in the right space at the right time.

Share price chart

Source: Tradingview

A product that lives up to its name

WiseTech's main product is CargoWise One, a cloud-based end-to-end logistics execution platform that freight forwarders and other logistics companies can use to manage their business. The product is Cloud based, is sold in a subscription model and is modular, meaning that it can be customised to only include what customers need.

In addition to CargoWise, WiseTech offers the Xtrade messaging solution, that lets suppliers and customers share information, as well as transport management solutions for truckload shippers.

WiseTech was founded in 1994 and operated privately for over two decades before its listing, all the while headed by Richard White who still holds the hot seat and owns over 40% of the company. Over 18,000 logistics organisations across 150 countries rely on WiseTech software to facilitate the movement and storage of all types of goods, including 24 of the top 25 global freight forwarders and 41 of the top 50 global 3PL (Third Party Logistics) providers. Just 27% of its revenues come from Australia, 41% are from the Asia-Pacific and 28% from the Americas.

Solid financial results

When the Corona Crash hit, investors sold anything and everything because of fear their stocks would be impacted, even if company management was in denial. WiseTech was upfront and honest, lowering its FY20

revenue and EBITDA guidance and ultimately reached this guidance. But as restrictions eased and economic activity picked up (especially eCommerce), business came bouncing back.

In FY21, revenue was up 24% to $507.5m and EBITDA grew 63% to $206.7m. FY22 was another good year for the company with revenue up 25% to $632.2m and EBITDA up 54% to $319m. It recorded an EBITDA margin of 50%, a free cash flow of $237.3m (up 71%) and generated underlying NPAT of $181.8m (up 72%). It paid a dividend of 11.15cps, up 71%, but representing a yield of less than 1%.

For FY23, WiseTech has provided guidance of 20-23% revenue growth and 21-30% EBITDA growth. Consensus estimates concur at $775.6m revenue and $402.5m EBITDA, which are in the middle of the aforementioned ranges. FY24 consensus estimates suggest $942.5m in revenue and $507.6m in EBITDA, both up over 20% from FY23.

By FY27, the company is anticipated to have $1.6bn in revenue and $740m in EBITDA. Turning back to the shorter term, the company's multiples for FY23 do suggest the share price is excessive right now, with 44.5x EV/EBITDA, 77.4x P/E, 2.3x PEG (based on a long-term Growth rate of over 30%) and <2x EV/EBITDA-to-EBITDA growth for FY23.

A long-term growth record, but can it be maintained?

Clearly, whether or not you buy in comes down to whether or not you think WiseTech can maintain its growth. You can take heart from its track record since listing (with a CAGR of 31%) and specifically compared to so many other high-growth tech companies (including some on the ASX) who in the last 12 months have witnessed their growth grind to a halt. It is a profitable company in its own right.

WiseTech has bought over 40 companies since listing, but just three in the last 12 months. It is not a DGL Group (ASX:DGL) that is mostly reliant on acquisitions to achieve growth. And the three purchases it made were to fill specific gaps in its product range. It has also cut back on sales and marketing expenditures, down from 13% of revenue in 2020 to just 7% in 2022. In fact, it has cut costs across the board, trimming $13.8m in 2021 and $32.6m in 2022.

We observe that 90% of the company's revenue comes from existing customers. On one hand it is a good thing, showing that CargoWise is becoming more and more valuable to customers. But the other, some investors may find it more encouraging if it was depicting growth in customer numbers.

Are there any risks?

In our view, the risks with WiseTech are investor sentiment, a slowdown in the global cargo trade, the risk of cyber-attacks and short-seller attacks. The latter actually happened to the company in 2019 and sent its share price down 33% in 3 months. But all these pale on comparison to the risk of the company not continuing its growth record. As investors in Appen (ASX: APX) would know, it is not a good thing to have growth slow down and miss your forecasts when your stock is valued at high levels.

But we take heart in the importance of its product to its customers, its solid cash flow and track record of long-term growth. One thing to bear in mind that the share price is volatile, especially on reporting days. But investors who are in it for the longer term and not just for a quick profit are unlikely to be disappointed. Four stars.

Pitt Street Research Pty Ltd

3 Spring Street, Sydney, NSW 2000, Australia

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